

VARIABLE AND FIXED COMPENSATION FOR MOTIVATION OF EMPLOYEES IN TOURISM INDUSTRY

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Abstract—Motivation of employees is significant topic of modern tourism enterprises, since it directly affect their commitment and results achieved. Therefore, employees are marked as human capital, and human resources management as integrated part of tourism enterprises management. With purpose of providing successful enterprise management, and particularly human resources management, appropriate compensation system should be used. There is no magical recipe which would indicate perfect proportion of variable and fixed part of compensation system. However, based on the research results, presented in this paper, some indications might be useful for making decisions about structure of compensation system. These indications refer to dependency of compensation system structure on type of work employees perform or the position they occupy in the enterprise.

Keywords—human resources management, employees, variable compensation, fixed compensation, tourism industry.

I. INTRODUCTION

TOURISM is the industry in which it is even more obvious that all employees affect customers' satisfaction. On the other hand, success of tourism enterprises depends, a great deal, on quality of employees or on quality of human resources management.

Consumers could be satisfied only if all employees, considering the importance of their work, try to perform all their activities in the best possible way (perfectly good). Therefore, it is necessary to define assignments and roles of all employees. Only if each employee is aware of improvement, of his responsibilities, and what would be criteria for rewards or punishment, it is certain that he would make an effort, much more that in case when the roles and assignments are not clearly defined and responsibility can be transferred from one employee to another.

Tourism is a very specific industry since it greatly depends on the intensity of the work of employees. Capability and efficiency of employees, on the other hand, depend on quality of professional training,

including lifelong learning. It is extremely important to maximize attention to the education that enhances the ability of people to be flexible, professional, communicative and willing to meet different needs of clients in the tourism industry.

Due to the importance for the functioning of industry as a whole, and especially in the tourism industry, employees are now regarded as human capital. This means that tourism enterprises in case of inadequate treatment of employees can very easily lose part of its capital. This is because if disgruntled employees leave the company they will take with them their knowledge, skills and abilities, and deprive the company of the important part of the capital. That is why today in the successful tourism companies and in those who aspire to become successful, great attention is paid to human capital management. About the importance of adequate human capital or human resource management speaks the fact that contemporary competitive advantage mainly is based on knowledge, so one can even speak about knowledge-based competition (Yahya, Goh, 2002). Concerning that, investing in the development and dissemination of knowledge is seen as a kind of investment. Investing in development of employee knowledge and skills certainly is one of the ways for raising their productivity and making them more motivated for work. However, on the other hand, there are other ways for raising employees' productivity. One of them, that do not imply additional investment, might be structuring compensation system in a way that employees consider realistic and equitable.

As a segment of human resource management in tourism industry, reward system is a subject of interest of many authors who have studied business enterprises from human resources aspect (Williams, Dreher, 1992; Heneman, Ledford Jr, Gresham, 2002; Bernacki, Tsai, 2003; Choi, Chen, 2007). Most of them emphasize the necessity of strategic approach to human resource management. In this regard, in this paper considerable attention is paid to how to use rewarding system in order

to increase employees' motivation.

II. COMPENSATION SYSTEM: PURPOSE AND STRUCTURE

The expression rewarding system or compensation system for employees includes all the awards that are given to employees in exchange for their work and contribution to the achievement of company's goals. The compensation system for employees is defined in different ways, but it can be represented in the narrow and broad sense. In the narrow sense, rewarding system includes money, goods and services, recognition and status, which are offered to employees in exchange for a certain, specific behavior, which is necessary for the achievement of company's goals. In the broad sense, compensation includes a system for evaluation and assessing the performances of employees, since employees' performance reviews play an important role in determining the salary and various types of stimulation (Bogićević-Milikić, 2006).

Given that they arouse from employment or job performance, rewards are the consequence of employees' behavior. But since that they can significantly affect their satisfaction and motivation, rewards should be viewed as an incentive of desirable behavior of employees and improvement of their performance. In order to use motivational potential of different forms of rewards for employees for improvement of their performance and the overall performance of the organization, it is necessary to change strategic approach to rewarding employees. Rather than as a necessity, rewards for employees should be viewed as an opportunity. Financial compensation, as a central part of the compensation system, in this sense, is not an expense or a cost, but an investment in the most valuable organizational asset - its people. Satisfaction and motivation of employees and improvement of overall performance are the starting point and the end result of the construction of an objective, fair and incentive compensation system for employees.

Compensation system must be transparent and unambiguous and available to managers and owners of capital. In order to improve the relationship between managers and shareholders, the compensation system must be structured in a way that the rewarding is proportional to the created value, and that both short-term, and long-term performances are taken into account (Delaney, Huselid, 1996). Accordingly, the compensation system must be closely linked to the objectives and corresponding criteria. In companies that encourage involvement of all or great number of employees in process of implementation and improvement of strategy, compensation packages are not created only managers but also for other employees. However, the compensation system is particularly

important when it comes to managers, because they, through their decisions, direct company and affect its short-and long-term performances.

Under modern conditions, compensation system assumes combination of various forms of compensation (Gerhart, Bretz Jr, 1994). Compensation may occur in financial and non-financial forms, where both forms may have direct or indirect expression. Reward system involves financial compensations, such as salary as a fixed part of compensation, share of the profit, premiums for night and overtime work, allowances related to working conditions, bonuses, shares and share options (typical compensation packages for managers) as a variable, stimulating part of their earnings (Ding, Akhtar, Ge, 2006). On the other hand, compensation system involves also variety of non-financial compensations such as health, pension and life insurance, paid leave, annual leave and sick leave, scholarships and training, use of a company's car, restaurant, managerial benefits, etc.

III. COMPENSATION SYSTEM IN TOURISM ENTERPRISES IN SERBIA

For Serbia, tourism industry is very important. Considering the fact that in 2011 there was recorded an increase in tourist arrivals of about 100,000, and the total number of tourist days, this may be considered as part of the economy that can be driving force of its development. However, number of employees in accommodation and food services has decreased by about 10,000, according to data of the Republic Statistical Office (www.stat.gov.rs). In order to motivate the employees that are still employed in the tourism industry, enterprises are trying to find different ways. As it has been already mentioned, the structure of compensation system has to be adapted to needs of those employees in order to provide their motivation and commitment (Chiu, Luk, Tang, 2002), which is especially important in tourism industry. As it is also mentioned, compensation system includes material and non-material motivators.

Material motivators are especially important in developing countries and developed countries, where the most of the population fails to provide satisfaction of needs that are at lower levels in the structure of needs. In this sense, the hypothesis, which should be tested, is that material motivators, and above all, the system of salaries, have a greater impact on the commitment of employees compared to non-material forms of remuneration.

The problem that the research is focused on is the lack of foundation of the reward system in practice, especially in tourism industry, or the absence of, or disregard of relevant principles in structuring the compensation

system for employees. This consequently leads to insufficient or inadequate motivation of employees, and the under-utilization of human resources, thus reducing the growth potential of tourism industry.

This is another reason why the resort to empirical research problems is related to the structuring of compensation system for employees. Precisely, the research study is focused on the analysis of the effect of compensation system to the motivation of employees in the sampled tourism enterprises. This study is considered to be useful due to the previously prominent features and the importance of human resources as a source of competitive advantage (Schuler, MacMillan, 1984; Van Dyk, Gerber, Haasbroek, Schultz, Sono, Werner, 2001), and the fact that employees, only if they are adequately motivated, will use their potential to improve the functioning of the tourism enterprises. The research included people employed in the tourism enterprises in Serbia. The results of the research and conclusions (in the form of recommendations for managers) should indicate the possible ways of solving problems related to the formulation of an adequate compensation system that occur in practice of tourism enterprises in Serbia.

One part of the questions in the questionnaire was analyzed in regard to the origin of the majority of capital (predominantly domestic or foreign capital of tourism enterprises). However, the most of the analysis was carried out starting from the type of work that respondents perform (providing services and logistics, marketing, administration and finance), and the position they occupy in the company (managers and non-managers). The hypothesis is that there are differences in attitudes and perceptions of employees who belong to different groups, according to these criteria, about the structure of compensation system. The following figures show the structure of the sample according to the type of work that the employees perform (Figure 1), and the position which employees occupy (Figure 2).

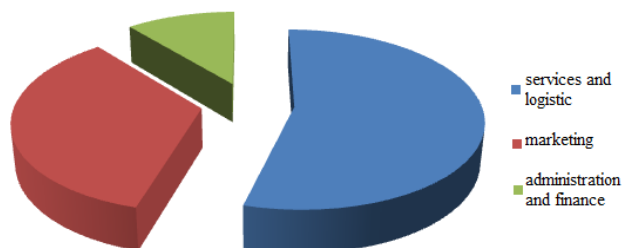


Fig. 1: The structure of respondents according to type of work

From Figure 1 one can see that the dominant share of employees engaged at the jobs concerning services and logistics, which is not surprising if it is considered the

fact that the tourism enterprises are oriented towards services. Greater percentage of employees in marketing in relation to the number of administrative employees is quite logical given the increasing importance of marketing, not just in terms of promoting the company's offer, but also the incorporation of sales and market research, which is extremely important in tourism industry. Therefore, the majority of employees are engaged in providing services and logistics activities. Although one can argue that the structure of the sample accurately reflects the structure of employment in the tourism industry in the Republic of Serbia, for the purposes of this research, and based on the experience it can be said that the differences in this respect are certainly not great. If research shows that there are significant differences in opinion on certain issues between subjects belonging to different functional areas (types of activities, in sense of services and logistics, marketing, and finance and administration) then it will be suggested that position and activities that an employee performs may be factor of rewarding system structuring. Distribution of respondents according to the type of work in large enterprises (61% of services and logistics, 27% marketing, administration and finance 12%), medium-sized companies (53% of services and logistics, 38% marketing, administration and finance 9%) and small businesses (49% of services and logistics, 39% of marketing 12% administration and finance) do not differ significantly (between different size of tourism enterprises).

Sample structure according to the position which the employees occupy (managerial vs. non-managerial position) reflects specific organizational solutions, but may be informative and may suggest the way employees at different positions should be treated concerning material compensation. The resulting structure can be informative from the standpoint of establishing principles of compensation policy in designing the rewarding system. Stratification according to the position that an employee occupies implies that the choice of employees who are at certain positions in the company is made on the basis of their structure in the particular company, since there is no data available on the participation of managers in the number of employees in the tourism industry as a whole. Thus, the structure of employees in the sample according to the position they occupy resulted based on the participation of managers and non-managers in the companies that are selected randomly through the sample (Figure 2).

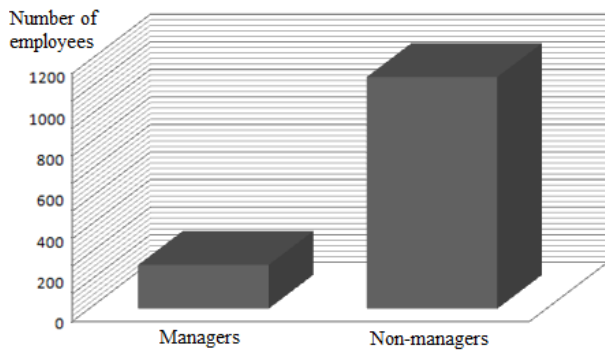


Fig. 2: The structure of respondents according to the position

Most employees prefer fixed income, but there are significant differences in preferences of managers and non-managers (Figure 3).

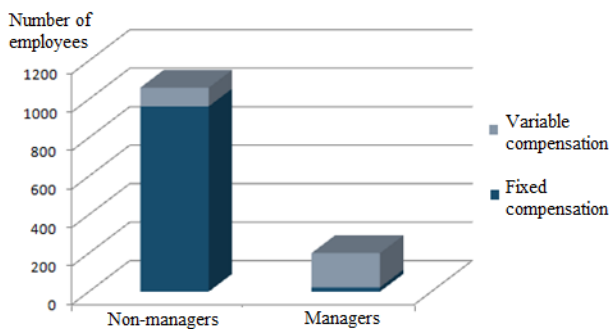


Fig. 3: The choice of fixed or variable compensation according the position of employees

For statistical confirmation of causality of choosing fixed or variable income depending on position at which the employee is, χ^2 test has been used. The null hypothesis (H_0) states that there is no correlation between the position of the employee and the tendency toward fixed or variable earnings. On the other hand, alternative hypothesis (H_1) states that there is a dependency between the position of the employee and the tendency or preference toward fixed or variable earnings.

The results of analysis⁴ show that it is necessary to reject the null hypothesis, since the realized level of significance when testing is less than 0.05. Specifically, from Table 1 it can be seen that p-value is equal 0.000, which is less than 0.05, which means that between the observed characteristics (position of employees and their preference for fixed or variable compensation) there is dependency. This is confirmed by the relatively high value of the contingency coefficient (C) which is equal 0.664, and which indicates the strength of dependence between the observed characteristics. Employees at managerial positions prefer that their salary includes both parts, fixed and variable part, while employees who are not in managerial positions prefer that total

compensation has fixed character.

Table 1: Influence of employees' position on their preferences towards fixed or variable compensation

v: 1
p-value: 0.000
C: 0.664
Conclusion: H_0 is rejected with the alpha risk of 0.05

The preferred orientation of employees in terms of fixed or variable compensation, given the type of work they perform, is shown in Figure 4. From the picture one can see that in all types of jobs there are employees who, apart from fixed, like that in the structure of the compensation package have variable component, which will depend on the results achieved.

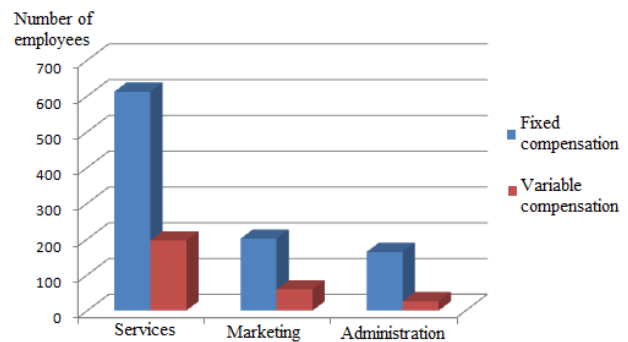


Fig. 4: The preference of fixed or variable compensation according to type of work

The result of the χ^2 test shows that between the observed characteristics (type of work and preferences regarding the structure of earnings) there is no dependence (Table 2). In other words, will employees prefer a fixed compensation or a combination of a fixed and a variable part of compensation (when variable part depends on the results achieved), does not depend on the type of work performed, i.e. whether an employee is engaged in services, marketing or administration.

Table 2: Influence of type of work to preference of fixed or variable compensation

v: 2
p-value: 0.523
C: 0.079
Conclusion: H_0 is accepted with alpha risk of 0.05

This conclusion is based on the realized level of significance when testing, which is 0.523 or greater than 0.05. The lack of connection between the observed variables, and the validity of the null hypothesis is confirmed by the low contingency coefficient (C), which is equal 0.079. In relation to company size and other criteria grouping of employees, there is also no

significant difference in the choice of a fixed or variable income.

IV. CONCLUSION

It is evident that the majority of employees favored fixed total earnings. The reasons for this may be manifold. One possible reason for the preference for fixed income can be a big influence of external factors on the work performance of employees, which are the basis for the calculation of incentive earnings (for example, lower economic activity, lower standard of tourists, unused capacities and so on). However, the research has shown that employees in marketing generally considered that the implementation of tasks largely depends on themselves. Due to the great motivational potential that stimulation through salary affects employees in sales, these findings suggest additional research and analysis, in particular to determine the causes why variable earnings are unpopular among sales staff. On the other hand, there is indicative dependence of choosing fixed or variable salary of the position which the employee occupies, confirming the hypothesis that the impact of earnings based on performance on the motivation depends on the position which the employee occupies and its potential impact on the overall performance of company.

The earnings of the most of respondents are fixed, with no significant difference between employees in marketing (especially in sales) and people employed in other sectors. However, the share of those who receive variable salary is much higher among employees in marketing, compared to those employed in services and administration.

This paper presents just a part of the research results, but they are enough for conclusion that material motivators, and above all, the system of salaries, have a greater impact on the commitment of employees compared to non-material forms of remuneration (which was the hypothesis of this paper). The analysis of the research results confirm other hypothesis that there are differences in attitudes and perceptions of employees who belong to different groups, from the aspect of position that employees occupy, about the structure of compensation system. The results, shown in the paper, as just part of the research concerning human resources management in tourism enterprises indicate that there are opportunities to motivate employees to work harder and achieve higher performances. Consequently, those opportunities may also be observed as factor of tourism industry growth.

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